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RIPLEY INTERNATIONAL LIMITED

Annual Report for the year ended October 31, 1972

Ripley's
® **Believe It or Not!**

File

RIPLEY INTERNATIONAL LIMITED

110 St. Clair Avenue West, Toronto, Ontario, Canada.

Directors:

T. Alec Rigby • *President of the Company*

C. H. Bristoll • *Executive Vice-President and Treasurer of the Company*

J. B. W. Carmichael • *President, City Buick Pontiac Cadillac Ltd., Toronto.*

W. A. Corbett • *Partner, Fraser & Beatty, Toronto.*

J. D. Meekison • *Director, Cablecasting Limited, Toronto.*

N. J. Short • *Investment Counsel*

Officers:

T. Alec Rigby • *President*

C. H. Bristoll • *Executive Vice-President and Treasurer*

D. R. Copperthwaite • *Vice-President, Research and Development*

W. A. Corbett • *Secretary*

Transfer Agent and Registrar:

CANADA PERMANENT TRUST COMPANY
VANCOUVER, CALGARY, TORONTO AND MONTREAL

Auditors:

CLARKSON, GORDON & CO.
TORONTO, ONTARIO

Bankers:

THE TORONTO-DOMINION BANK
TORONTO, ONTARIO

The President's Letter

The 1972 year was one of considerable progress for your company with earnings reaching the record level of \$450,000 or 45¢ a share, compared with \$351,000 or 35¢ a share in the preceding year, an increase of over 28%.

Funds generated from operations totalled \$715,000, an increase of \$204,000 over the 1971 year. These funds were largely used to expand your company's museum operations but, in addition, \$200,000 was applied to reduce the company's bank borrowings.

Each of our museums showed an increase in revenue and earnings. In particular, earnings in our Florida museums located in St. Augustine and St. Petersburg rose substantially, in part because of expansion of our gift shop and food service facilities and in part because of an upsurge in tourism in Florida. Further, our "Believe It or Not!" museum in Gatlinburg, Tennessee produced greatly increased revenues and earnings in its second year of operations.

In July 1972 an additional attraction was opened in Gatlinburg, based on a new museum concept created by your company and called the "Museum of Witchcraft and Magic". This museum has done extremely well and a second "Museum of Witchcraft and Magic" will be opened in July in a prime location on Fisherman's Wharf in San Francisco.

Recently your company purchased a site in Estes Park, Colorado, some 80 miles north-west of Denver at the entrance to the Rocky Mountain National Park, to house a new Ripley "Believe It or Not!" museum. Construction has now commenced and the museum is to be opened in April of this year. In addition, a corner property adjoining the museum in St. Petersburg was purchased to enable the company to extend its operations at that location. Further, our premises in St. Augustine will be expanded to provide additional gift shop and food service facilities.

The sale of Ripley "Believe It or Not!" pocket books and comic books continues at most satisfactory levels with the latter now being distributed in over 50 countries. The exposure of the "Believe It or Not!" theme which these sales provide, together with continuing activities in licensing for promotional purposes, not only generates direct revenue but contributes significantly in maintaining awareness of the "Believe It or Not!" name.

In early 1972 Mr. Derek Copperthwaite was appointed Vice-President, Research and Development. Mr. Copperthwaite has had extensive experience in creating leisure-time attractions and is to be nominated for election to your Board of Directors at the annual meeting.

With the planned extension of operations as described above, your directors anticipate that earnings in the 1973 year will again reach record levels. In seeking this objective, we acknowledge the outstanding contribution made by the managers of each of our museums, and by our dedicated head office staff.

Respectfully submitted on
behalf of the Board:



T. Alec Rigby,
President

February 5, 1973

RIPLEY INTERNATIONAL LIMITED
and Subsidiary Companies

Consolidated Statement of Earnings
and Retained Earnings

For the Year Ended October 31, 1972
(with comparative figures for 1971)

	1972	1971
Revenue from museum operations, royalties and other sources	\$3,128,701	\$2,411,570
Operating costs and expenses, other than those noted below	1,887,664	1,419,982
	<u>1,241,037</u>	<u>991,588</u>
Deduct:		
Bank loan, debenture and other interest	88,865	91,689
Depreciation and amortization of fixed assets	156,563	127,196
Amortization of deferred expenses	36,382	31,238
Remuneration of directors and senior officers	126,692	106,407
	<u>408,502</u>	<u>356,530</u>
Earnings before income taxes	832,535	635,058
Income taxes	382,138	283,608
	<u>450,397</u>	<u>351,450</u>
Earnings for the year (note 8)	893,751	542,301
Retained earnings, beginning of year		
	<u>\$1,344,148</u>	<u>\$ 893,751</u>
Retained earnings, end of year		

(See accompanying notes to consolidated financial statements)

RIPLEY INTERNATIONAL LIMITED
and Subsidiary Companies

**Consolidated Statement of Source
and Application of Funds**

For the Year Ended October 31, 1972

(with comparative figures for 1971)

	1972	1971
Funds were provided from:		
Operations —		
Earnings for the year	\$450,397	\$351,450
Add charges not requiring an outlay of funds in the year:		
Depreciation and amortization	192,945	159,274
Deferred income taxes (note 5)	71,246	
Funds provided from operations	714,588	510,724
Proceeds from issue of 10½ % debenture		300,000
Total funds provided	714,588	810,724
Funds were applied to:		
Purchase of fixed assets	506,898	650,190
Deferred expenses	86,055	85,510
Decrease in non-current portion of term bank loans	212,313	9,844
Decrease in non-current portion of mortgage	6,750	6,328
Total funds applied	812,016	751,872
Excess of funds provided over funds applied (applied over provided) resulting in an increase (decrease) in working capital of	(97,428)	58,852
Working capital, beginning of year	384,275	325,423
Working capital, end of year	\$286,847	\$384,275

(See accompanying notes to consolidated financial statements)

RIPLEY INTERNATIONAL LIMITED (Incorporated under the laws of Ontario)
and Subsidiary Companies

**Consolidated
Balance Sheet**

October 31, 1972

(with comparative figures at October 31, 1971)

ASSETS

	1972	1971
Current:		
Cash	\$ 179,054	\$ 156,740
Term bank deposits	216,222	345,792
Inventories, at lower of cost or net realizable value	262,630	165,468
Prepaid expenses	48,331	46,174
Total current assets	<u>706,237</u>	<u>714,174</u>
Fixed, at cost (note 2):		
Buildings	502,782	460,416
Exhibition materials, office and other equipment	1,874,158	1,684,314
	<u>2,376,940</u>	<u>2,144,730</u>
Less accumulated depreciation	543,621	444,330
	<u>1,833,319</u>	<u>1,700,400</u>
Leasehold improvements, less amortization	382,765	165,349
Land	266,838	266,838
Total fixed assets	<u>2,482,922</u>	<u>2,132,587</u>
Other:		
Trademarks, at cost	3,321,263	3,321,263
Deferred expenses, less amortization (note 3)	198,691	149,018
Total other assets	<u>3,519,954</u>	<u>3,470,281</u>
	<u>\$6,709,113</u>	<u>\$6,317,042</u>

(See accompanying notes to consolidated financial statements)

On behalf of the Board:

T. Alec Rigby, *Director*
C. H. Bristoll, *Director*

LIABILITIES AND SHAREHOLDERS' EQUITY

	1972	1971
Current:		
Current maturities of term bank loans	\$ 196,688	\$ 201,062
Accounts payable and accrued charges	153,497	91,758
Income and other taxes payable	69,205	37,079
Total current liabilities	<u>419,390</u>	<u>329,899</u>
Long-term debt (note 4):		
Term bank loans (U.S. \$700,000; 1971 U.S. \$900,000)	727,469	944,156
Less current maturities included with current liabilities	<u>196,688</u>	<u>201,062</u>
	530,781	743,094
10½ % debenture	300,000	300,000
Mortgage, less current instalments	<u>53,664</u>	<u>60,414</u>
Total long-term debt	<u>884,445</u>	<u>1,103,508</u>
Deferred income taxes (note 5)	<u>71,246</u>	
Shareholders' equity:		
Capital (note 6) —		
Authorized:		
3,000,000 shares without par value		
Issued:		
1,000,000 shares	3,989,884	3,989,884
Retained earnings	<u>1,344,148</u>	<u>893,751</u>
Total shareholders' equity	<u>5,334,032</u>	<u>4,883,635</u>
	<u>\$6,709,113</u>	<u>\$6,317,042</u>

(See accompanying notes to consolidated financial statements)

AUDITORS' REPORT

To the Shareholders of Ripley International Limited:

We have examined the consolidated balance sheet of Ripley International Limited and its wholly-owned subsidiaries as at October 31, 1972, and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at October 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 3, 1973.

Clarkson, Gordon & Co.
CHARTERED ACCOUNTANTS

RIPLEY INTERNATIONAL LIMITED
and Subsidiary Companies

**Notes to Consolidated
Financial Statements**

October 31, 1972

1. Principles of consolidation

The accompanying consolidated financial statements include the accounts of all subsidiary companies.

Certain of the company's transactions and substantially all of the subsidiaries' transactions are effected in foreign currencies. In the accompanying consolidated financial statements, foreign currency current assets and liabilities have been translated into Canadian currency at the rate of exchange prevailing at the fiscal year end and other assets and liabilities at the rates applicable at dates acquired or incurred. Revenue and expenses, other than depreciation and amortization, have been translated to Canadian currency at average rates applicable during the periods in which earned or expended.

2. Depreciation and amortization

Rates of depreciation and amortization of fixed assets are as follows:

Buildings – 5% per annum, straight line basis.

Exhibition materials, office and other equipment – at rates ranging from 2% to 20% depending upon estimated useful life, in part on a straight line basis and in part on a diminishing balance basis.

Leasehold improvements – over the terms of the respective leases on a straight line basis.

3. Deferred expenses

Deferred expenses comprise the following:

	1972	1971
Museum set-up expenses and lease payments	\$183,745	\$132,637
Financing expenses	14,946	16,381
	<u>\$198,691</u>	<u>\$149,018</u>

The company's policy is to amortize museum set-up expenses and lease payments generally over the terms of the leases on the respective museum properties.

Financing expenses consist of fees relating to the placement of the company's debenture issue in 1971. These expenses are being amortized on a straight line basis over 12 years, being the term of the debenture.

4. Long-term debt

Information relating to the company's long-term debt is as follows:

- (a) The term bank loans are secured by a demand debenture carrying a floating charge on all of the company's assets, by the guarantees of certain subsidiary companies and by the pledging of all of such subsidiaries' shares. The loans bear interest at 1½% above the prime commercial rate of interest in New York and are repayable in quarterly instalments of U.S. \$50,000 with the final instalment due February 1, 1976.

- (b) The 10½% debenture is secured by a floating charge on the assets of the company and is subordinate to the secured demand debenture referred to in (a) above. The debenture is due in instalments of \$42,000 on March 31, 1977 and \$43,000 on March 31 in each of the years 1978 to 1983 inclusive. The principal balance may be repaid in whole, but not in part, at the company's option at any time after March 31, 1976, without bonus.
- (c) The mortgage which bears interest at 6¼% and matures on March 1, 1980, is secured by the real estate of a subsidiary and is repayable in blended monthly instalments of principal and interest of \$800. The principal portion of instalments due in fiscal 1973 and included with accounts payable and accrued charges in the accompanying consolidated balance sheet is \$6,162 (1971 - \$5,905).

In connection with the term bank loans and the 10½% debenture, the company has agreed, among other things,

- (i) not to make certain cash disbursements, including dividend payments and payments in respect of the purchase or redemption of its own shares, in any year in excess of 50% of consolidated earnings (as defined) for the preceding year, or 50% of such earnings accumulated since October 31, 1970;
- (ii) to maintain its consolidated working capital, after eliminating from current liabilities the currently due portion of the bank loans, at not less than \$150,000. At October 31, 1972 consolidated working capital for this purpose totalled \$484,000, and
- (iii) to maintain cash on deposit with the bank equal to 10% of the principal amount of the bank loans outstanding.

5. *Deferred income taxes*

The company and certain of its subsidiaries intend to claim for income tax purposes certain expenses (largely depreciation) in excess of amounts charged in the consolidated financial statements. The resulting tax savings have been set aside in the accompanying consolidated balance sheet as deferred income taxes to be credited to income in future years when expenses claimed for tax purposes are less than the related amounts charged in the financial statements.

6. *Capital stock*

Issued capital as set out in the consolidated balance sheet has been determined as follows:

Value of consideration received for shares issued	\$5,272,006
Less amount by which the value of shares issued in exchange for shares of subsidiaries consolidated on the "pooling of interests" basis of accounting exceeds the value at which such subsidiaries' shares were originally issued	<u>1,282,122</u>
Issued capital per balance sheet	<u>\$3,989,884</u>

Of the company's authorized but unissued share capital, 60,000 shares are reserved in respect of outstanding warrants to purchase shares at any time to April 30, 1974 at \$10 per share, which price is subject to adjustment in certain circumstances.

A further 50,000 authorized but unissued shares are reserved in respect of an incentive share option plan under which full-time senior officers and employees may be granted options, exercisable within five years from the granting thereof, to purchase shares at a price which is not less than 90% of the market price of the shares at the date of grant of the options.

At October 31, 1972, options with respect to 43,000 shares had been granted under the plan as follows:

Granted prior to October 31, 1971 and exercisable to June 30, 1976 at \$3.00 per share	33,000 shares
Granted during the year ended October 31, 1972 and exercisable to December 31, 1976 at \$3.50 per share	<u>10,000</u>
	<u>43,000 shares</u>

7. *Commitments*

The company and its subsidiaries are committed under various lease and other agreements, subject to renewal options in certain instances, in respect of museum and office premises and certain exhibition materials and rights, to minimum annual payments of approximately \$175,000 in 1973, reducing in stages to \$48,000 in 1983 and in each of the following 13 years.

8. *Earnings per share*

Earnings per share were 45¢ in 1972 (35¢ in 1971).

No material dilution of earnings per share would have resulted had the warrant holders and senior officers and employees holding share purchase options, as referred to in note 6 above, exercised such purchase rights and had the funds thereby received been invested at current interest rates or applied in reduction of the term bank loans.

9. *Subsequent events*

Subsequent to the year-end a subsidiary company completed the purchase of certain real estate adjacent to the present museum site in St. Petersburg, Florida for a total consideration of \$185,000 of which \$80,000 was paid in cash with the balance of \$105,000 being financed by way of mortgage bearing interest at 7% per annum and repayable in monthly instalments of principal and interest amortized over a 15 year period.

Also subsequent to the year-end, a newly-incorporated subsidiary company completed the purchase of real estate in Estes Park, Colorado for a total consideration of \$125,000. Under the terms of the purchase agreement \$5,000 was paid in cash, \$31,500 of the balance is payable on January 15, 1973 and the remainder of the purchase price, \$88,500, is to be financed by a note bearing interest at 7½% per annum, repayable in 10 semi-annual instalments of \$8,850 commencing January 15, 1974.

Museum Locations

Blackpool, Lancashire, England

Fisherman's Wharf, San Francisco, California

Gatlinburg, Tennessee

Niagara Falls, Ontario

Old Town, Chicago, Illinois

St. Augustine, Florida

St. Petersburg Beach, Florida

Subsidiary Companies

International Wax Museums Limited

John Arthur Exhibitions, Inc.

London Wax Museum of Florida, Inc.

Ripley Believe It Or Not Co. Limited

Ripco, Inc.

Ripley International, Inc.

Ripley Museum, Inc.

Standard Outdoor Advertising, Inc.

Talex California, Inc.

Talex Illinois, Inc.

Talex Tenn, Inc.

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